ANNUAL REPORT 2000-2001

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BCSC BRITISH COLUMBIA SECURITIES COMMISSION

The first known observation of what we now call the fractal dates back to 1828. Scottish botanist, Robert Brown, discovered that small grains of pollen suspended in water moved in wild and irregular patterns. This became known as "Brownian motion".

In 1905, Albert Einstein formulated the mathematical laws that explain the movement and direction of those grains of pollen. This proved to be one of his greatest achievements and was cited when he was awarded the Nobel Prize for Physics in 1921.

Around the same time, French mathematician Louis Bachelier began to study the mathematics of stock prices. He explained that stock price movement resulted from a large number of small trades. His equations mirrored those of Einstein.

Bachelier's work has become very important in finance in recent years. In 1973, US economists, Fischer Black and Myron Scholes used the concept of Brownian motion to derive their formula for option prices.

In the late 1970's, French mathematician Benoît Mandelbrot formulated the concept of fractals. Fractals are graphic representations of the equations developed by Einstein and Bachelier. A prime feature of any fractal is that the pattern you see in the overall graphic is repeated on a smaller scale in any section you choose to view. Fractals come in an infinite range of colours and fantastic designs.

Our annual report acknowledges this blend of graphic design and market theory.

The BCSC wishes to thank Dr. Adlai Fisher, assistant professor of Finance, and Dr. Martin Barlow and Dr. Ulrich Haussmann, professors of Mathematics at the University of British Columbia, for their expert assistance in describing fractal theory.

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THE BCSC

The British Columbia Securities Commission (BCSC) is the independent provincial government agency responsible for regulating trading in securities in the province.

OUR GOAL

Our purpose is to ensure capital markets are fair and efficient and to foster a competitive industry that provides access to capital and investment opportunities. We do this by:

- ensuring investors have access to the information they need to make sound investment decisions
- setting qualifications and rules for people who advise investors and trade for them
- setting rules of conduct for those who participate in the market, and
- enforcing the rules and standards of the market.

Market participants – not the taxpayer – pay for the BCSC. We are accountable to the legislature and the public through the Minister of Competition, Science and Enterprise.

OUR STAKEHOLDERS

The BCSC's stakeholders include:

- investors – both retail and institutional who want to invest in fair and efficient capital markets
- issuers – who rely on capital markets to fund growth and diversification
- the securities industry – including self-regulatory bodies and registrants who serve both users and suppliers of capital, and
- the legislature and the provincial government – to whom we are accountable for conducting our business affairs and for administering the *Securities Act*.

RELIANCE UPON AND OVERSIGHT OF SELF-REGULATORY ORGANIZATIONS

To extend our capacity in regulating the activities of securities dealers, we rely on three self-regulatory organizations (SRO) – the Investment Dealers Association of Canada (IDA), the Canadian Venture Exchange (CDNX) and the Mutual Fund Dealers Association (MFDA).

Each of these organizations regulates the financial affairs and business conduct of its member dealers and their representatives. They can enforce compliance of their own rules or ours through disciplinary action, including monetary penalties, restrictions on business and suspension or cancellation of membership. Persons directly affected by a decision by one of these bodies can appeal it to the BCSC and ultimately to the BC Court of Appeal.

CANADIAN SECURITIES ADMINISTRATORS

The Canadian Securities Administrators (CSA) is the national umbrella group comprised of 13 provincial and territorial securities regulators. Through the CSA, we develop uniform rules and policies that apply across the country and co-ordinate our regulatory activities. Our aim is to provide "one-stop shopping" for those who issue, sell and buy securities. We do this by:

- establishing uniform securities rules and policies
- co-operating to streamline approval of applications in all jurisdictions
- jointly developing electronic systems for regulatory information
- co-ordinating compliance reviews and enforcement activities
- co-ordinating relations with foreign regulators, and
- jointly developing investor education materials.

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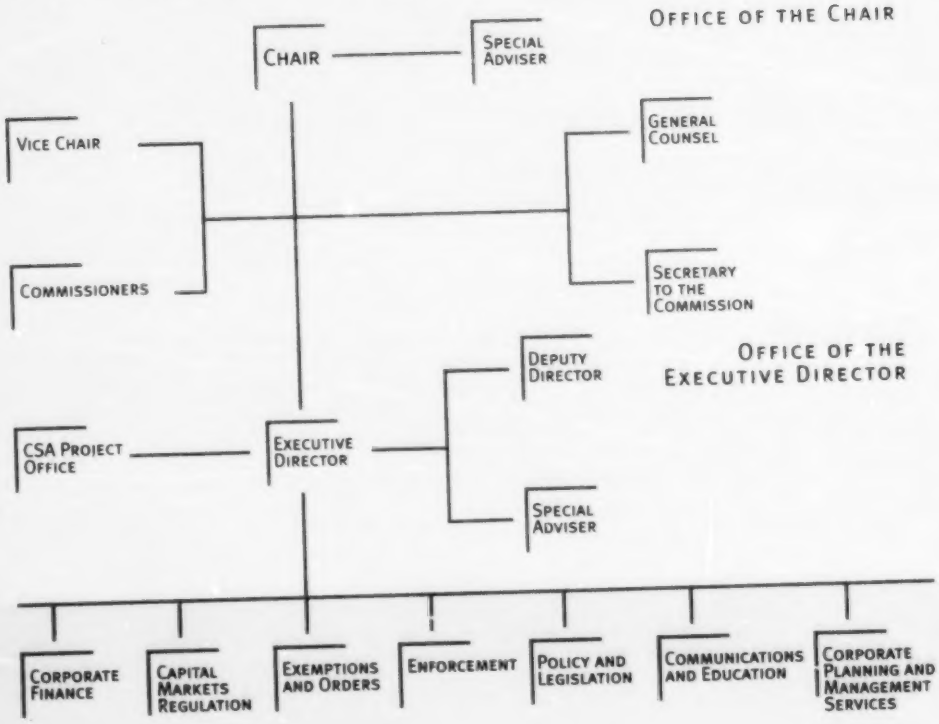
BCSC Organization



Office of the Chair – the full time commissioners and staff, who provide executive direction and manage the Commission's governance and hearing processes

Office of the Executive Director – the chief administrative officer, who is responsible for managing BCSC operations

Corporate Finance – regulates disclosure by public companies, mutual funds and corporate insiders

Capital Markets Regulation – regulates exchanges, self-regulatory organizations, dealers and advisers

Exemptions and Orders – handles applications for relief from regulations and manages regulation of take-over bids

Enforcement – investigates suspected misconduct in the securities market and takes enforcement action where appropriate

Policy and Legislation – develops and advises the Commission on rules, policies and legislation

Communications and Education – helps to inform investors, industry and the public about BC's capital markets and regulation

Corporate Planning and Management Services – manages the Commission's infrastructure

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Message From the Chair

The past year has been one of tremendous change for the BCSC as we develop a new and more dynamic approach to securities regulation. To keep pace with the needs of a fast-changing market, we have been shifting our organizational culture away from a bureaucratic, process-oriented focus and placing greater emphasis on identifying critical challenges, formulating practical objectives and achieving results.

I am proud to say that our commissioners and staff have risen to the task. We have re-examined long-standing rules, policies and processes, and taken significant steps toward making our regulatory system more efficient, relevant and responsive in today's market environment. At the same time, we have remained focused on our dual mandate: to ensure the securities market is fair and efficient, and warrants public confidence; and to foster a dynamic and competitive securities industry that provides investment opportunities and access to capital.

We are devoting a lot of effort to making the Canadian Securities Administrators (CSA) more effective in co-ordinating provincial regulation. With our CSA colleagues, we are working toward a national system of securities regulation that provides effective investor protection and efficient service but retains regional flexibility and innovation. Over the

past year, we made substantial progress in adopting updated and harmonized rules for take-over bids, prospectuses, disclosure about mineral projects, and index mutual funds. We finalized a reciprocal arrangement with US regulators allowing temporary residents to use their home country brokers. We developed a co-ordinated process for overseeing exchanges with offices in multiple provinces. And we completed the establishment of the Mutual Fund Dealers Association, which is now becoming the self-regulatory organization for mutual fund dealers in all provinces but Québec.

Within our own regulatory system in BC, we have launched a major effort to streamline our rules and policies and to write all of our documents in plain language. We want to make regulation clear and to organize it logically, so market participants can easily access information and understand the rules. We have already eliminated 140 policies and rules. We will consolidate the remaining ones into a single numbering system and review them annually to consider whether they are still required.

We have also emphasized education of investors and industry participants as important tools of regulation. We presented investor education seminars across the province to "street proof" the public from fraudulent and abusive investment schemes. We also teamed-up with Junior Achievement (JA) to develop and present high school programs across BC on economics and personal investing. By supporting JA with money from our education fund, we help to create a strong foundation for the future of capital markets in BC. Education fund money is also paying for programs to educate seniors and other investors about the benefits and pitfalls of the market. To develop a dialogue with industry about regulation, we presented several seminars on specific rule proposals and held the Capital Ideas conference in Vancouver to explain our strategic direction and hear the views of securities professionals.

Despite the encouraging progress, we have much more to do. We have to make the CSA work better by developing a common approach to regulation, focusing our efforts on a few key priorities, and reducing the compliance burden of our regulatory system. We also have to become more creative in using our regulatory tools to tackle the real problems in the market. This means we have to closely examine and clearly understand any perceived threat to investors, or to market integrity or efficiency, before deciding what combination of regulatory measures, if any, we can employ in a cost-effective way to mitigate the harm. We cannot try to cure all of the ills that are seen to afflict the market, so we have to focus our attention on where we can make a difference.

COMMISSIONERS

The commissioners are appointed by the provincial government and are responsible for administering the *Securities Act*. They are chosen for their skills and experience in business, capital markets and regulation. The BCSC currently has eight commissioners.

Commissioners have three basic functions:

- to serve as the BCSC's board of directors, and oversee its management
- to establish rules and policies to regulate the conduct of securities market participants, and
- to conduct hearings and make decisions under the *Securities Act*.

Doug Hyndman, Chair

- Appointed 1987
- Assistant Deputy Minister, Treasury Board, BC Finance Ministry, 1984-1987
- Economist, BC Finance Ministry, 1975-1984
- M.B.A., University of Western Ontario, 1975
- B.A. (Economics), University of BC, 1972

Joyce Maykut, QC, Vice Chair

- Appointed 1990
- Solicitor, 1981-1986, and Senior Solicitor, 1986-1990, Vancouver Legal Services Branch, Ministry of the Attorney General
- Criminal practice, sole practitioner, Vancouver, 1977-1981
- Prosecutor, Federal Department of Justice, 1974-1976
- LL.B., University of Alberta, 1973

Brent Aitken, Commissioner

- Appointed 1995
- Member, BCSC Human Resources Committee
- Director, Nav Canada, 1995-1999
- Senior Vice President, Canadian Airlines International Ltd., Calgary, 1987-1992
- Sessional instructor, securities regulation and corporate finance, University of Alberta and Calgary law schools, 1981-1984
- Seconded Counsel, Alberta Securities Commission, 1980-1981
- Corporate and securities lawyer, Bennett Jones, Calgary, 1979-1987
- LL.B, University of Alberta, 1978

Joan Brockman, Commissioner

- Appointed 1998
- Chair, BCSC Human Resources Committee
- Professor, School of Criminology, Simon Fraser University
- Called to the BC bar 1983 and the Alberta bar 1981
- LL.M., University of British Columbia, 1982
- LL.B., University of Calgary, 1980
- M.A. (Sociology), University of Alberta, 1976
- B.A. (Sociology), University of Saskatchewan, 1973

John Graf, Commissioner

- Appointed 1998
- Chair, BCSC Audit Committee
- Various positions with Norske Skog Canada Limited (formerly called Fletcher Challenge Canada Limited) from 1973 to 1997, retired in 1997 as Vice-President, Secretary and Treasurer
- Taxation Specialist, Arthur Andersen & Co., 1968-1973
- Chartered Accountant, 1968
- B.Comm., University of British Columbia, 1966

Adrienne Salvail-Lopez, Commissioner

- Appointed 1992
- Member, BCSC Audit Committee
- Director, BCSC Policy and Legislation Division, 1987-1992
- Senior Policy Adviser, BC Finance Ministry, 1982-1987
- Called to the BC bar, 1982
- LL.B., University of British Columbia, 1981
- B.A. (Economics and Commerce), Simon Fraser University, 1978

Roy Wares, Commissioner

- Appointed 1998
- Member, BCSC Audit Committee
- Registered professional geologist, Newfoundland
- Registered professional engineer, BC
- M.Sc. (Regional Resources Planning), University of Aberdeen, 1979
- M.Sc. (Geology), Queen's University, 1971
- B.Sc. (Hons) Geology, University of Aberdeen, 1964

Diane Wolch, Commissioner

- Appointed 1995
- Member, BCSC Human Resources Committee
- Commissioner, Manitoba Securities Commission, 1992-1993
- Financial Consultant, The Exchange Consulting Group, 1988-1989
- Broker, Burns Fry Ltd., 1980-1987
- Economic Analyst, Manitoba Department of Industry and Commerce, 1956
- B. Comm., McGill University, 1955

STEVE WILSON

MESSAGE FROM THE EXECUTIVE DIRECTOR

In today's business environment, there's a renewed focus on customers. What is the BCSC doing to improve its relationship with stakeholders?

We surveyed our stakeholders last October and asked them what they expect from us. We asked them to tell us what we were doing right and how we could improve. We used their feedback to set benchmarks and measurements for not only what we do – but how well we do it. We developed ways to be more responsive to stakeholder concerns, provide faster service, and identify and solve important problems.

In terms of our internal stakeholders – our staff – we moved to a larger, more efficient space this year that enhanced our surroundings and staff morale. We had outgrown our old office space and since the rent at our old location was increasing, it made economic sense to move. The new location also gives us the opportunity to expand in the future.

Can you provide an example of the BCSC's ability to be customer focused?

As part of our initiative to provide excellent service, we implemented a new automated telephone call distribution system. Our objective is to facilitate accurate, reliable and prompt delivery of information to the public. Our new telephone system expedites the transfer of calls to the correct department. As well, we have a new inquiries phone number where each caller is automatically routed to the next available information officer.

The survey also revealed that there is a demand for increased efficiency in the regulatory environment. What have you done to address this concern and provide faster service?

One of our solutions was to streamline regulations. We reviewed existing rules and policies and asked ourselves: "If this rule wasn't in place today, would we add it?" The result has been the elimination of 140 policies and rules. We also realized there aren't too many things that are unique to just one province. So when we consider rule changes or streamlining systems, we know we cannot do so in isolation. We continually work with other jurisdictions to harmonize the changes. For instance, we are working with the Canadian Securities Administrators on two projects that automate filings and reduce costs to industry – a national automated insider reporting system and a national registration system.

What "important problems" has the BCSC chosen to fix?

One of the top problems we're tackling is the cost to industry caused by regulatory delays. We will make better use of risk management and priority setting to expedite our investigations, litigation, policy and rule-making processes.

What else will you be focusing on?

Enforcement and compliance. We want to strike a better balance between imposing sanctions and the activities that foster compliance. We must recognize that most industry participants want to comply. It's our job to ensure they can – through our own efforts and by co-operating with self-regulatory organizations (SRO).

We also need to focus on improving communication with industry professionals. Some of the tools that we will use to create a culture of compliance are industry presentations and conferences; industry "report cards" that indicate compliance best practices; and publications such as our newsletter *The Registrant* and the *Continuous Disclosure Update*. In addition, every BCSC staff member is being trained in the use of plain language so that we distribute written materials that are easily understood.

The challenge will be to introduce these new tools while maintaining the vigilance of our enforcement and compliance activities.

How would you rate the progress the BCSC has made in educating investors?

We have achieved significant success in this area. We started directing monies collected from penalties to our Education Fund last year, which totalled $3.2 million at our fiscal year end. Through this fund, we developed partnerships with several groups, such as Junior

Achievement to deliver financial seminars at the high school level. This education program stimulates investor confidence and financial acumen in young people, which ultimately contributes to a growing and healthy capital market in this province.

At the other end of the spectrum, we have also made steady progress in helping seniors through the Seniors' Foundation of British Columbia by holding seminars across the province. The feedback has been very positive. The seminars help to arm seniors with knowledge and information that helps to prevent them from falling prey to fraud and investment scams.

We have also created partnerships with several financial institutions to present our Investigate Before You Invest seminars throughout BC.

How is the BCSC helping victims of fraud and investment scams?

We have several projects underway that address these problems. For instance, we have found that members of church groups are particularly vulnerable to what we call affinity fraud, where a con artist joins a group and develops the trust of its members before bilking them. We find it's difficult to persuade these kinds of victims to give evidence after the fraud. We are working to extend our enforcement surveillance activities to local communities and church groups to identify their vulnerability and to find better ways to enlist their help to fight fraud.

How are you equipping your staff to meet all of these challenges?

There is no doubt that in our line of work, people are our greatest asset. First we have to hire top-notch staff, and then we have to keep them. That means having competitive salaries and good benefits, but it also means maintaining an exciting and challenging workplace with opportunities for staff to develop their skills and advance. This year we will be developing career plans for promising staff to ensure we cultivate that environment. We are also forming cross-functional teams to solve unique regulatory problems, and making more use of secondments and industry exchanges to ensure we "stay in touch".

When you consider the changing securities industry and your role as regulator what do you see as the major challenge ahead for you and the BCSC staff?

Now that we are fully staffed and better organized, we must shift our focus to achieving "results that count." We must measure our contribution in terms of – "Are we having an impact? Are we shaping market behaviour to ensure public confidence in fair and efficient securities markets?"

We are focusing more on outcomes than outputs. We define an outcome as an improvement in market behaviour – whether it's the behaviour of a public company's management, an SRO, a financial adviser or individual investors.

Simply put, we are picking important problems and fixing them.

Looking Back

Our Performance for the Year

In our business plan for 2000-01, we identified five major challenges and set specific objectives to help us meet them. We have achieved 89% of these objectives. Our major challenges and goals are summarized on the following pages.

Meet the Challenge of a Changing Industry

The securities industry has profoundly changed in the last ten years – transforming the business of securities dealers and advisers; their relationships with clients; the role of exchanges, and the relationship between the securities industry and other parts of the financial services sector.

Registrants – including investment salespeople, dealers, and advisers – have traditionally been key elements of our regulatory system. However, there is now a growing trend to separate a registrant's historical roles of executing trades and offering advice to investors. With the growth of discount and Internet-based trading systems, some investors are relying less and less upon registrants for advice on trading in securities. At the same time, an increasing number of other investors are more reliant on registrants for money management and advice.

One of the more dramatic changes in the past decade has been the enormous growth of the mutual fund sector, which has led to a vast number of dealers and individual salespersons operating outside the self-regulatory system. Self-regulatory organizations (SRO) have performed front-line regulation of full service and discount brokers for many years, but now we have a larger group of mutual fund dealers under the direct regulation of the provincial commissions. In our view, we can be more effective leaving front-line regulation to an industry body, with securities commissions providing oversight of that process. We have been working with our colleagues in other jurisdictions for several years to rectify this situation by creating a new SRO for mutual fund dealers – the Mutual Fund Dealers Association (MFDA).

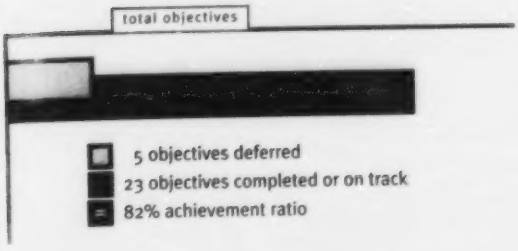
The restructuring of the Canadian exchanges in 1999, including the formation of the Canadian Venture Exchange (CDNX), offered many potential benefits to Canadian investors, business and the securities industry but created new regulatory challenges. Many of these issues are national in scope and have been addressed by the Canadian Securities Administrators (CSA). We have worked with our CSA partners to allocate the responsibility for regulating the various components of the new structure among the CSA jurisdictions.

Canadian investors and businesses are increasingly investing and raising capital through foreign markets, particularly in the United States. We continue to balance the requirement to facilitate legitimate cross-border trading while ensuring our rules and enforcement activities protect markets from persons who try to use the border as a shield for fraudulent activities.

The formerly distinct boundaries between the traditional "four pillars" of the Canadian financial services industry – banking, trust companies, securities and insurance – have become blurred. Some corporate groups now operate in several or all of these sectors – cross-selling services and consolidating office operations. Firms have created financial products that are legally outside the definition of securities but have investment characteristics similar to more traditional securities products. As a result, similar products may be regulated differently, depending on the type of institution offering the product. To provide appropriate protection of investors, we must work with other financial services regulators to ensure that similar products are regulated in similar ways.

Achievement of Objectives

The BCSC made significant progress in addressing the challenge of adapting to a changing industry.



√ We realized our goal of conducting an audit of one SRO a year. Co-operating with the CSA's SRO oversight committee, we developed an audit program for the Investment Dealers Association of Canada (IDA) and subsequently completed the audit of the Pacific District of the IDA before the end of the fiscal year. The IDA has responded to our audit and discussions are underway to address the deficiencies found by our examiners.

√ We participated in the process of recognizing the new MFDA in several jurisdictions. We published the MFDA's draft rules and bylaws for comment in June 2000, published its responses to the comments in December 2000, and officially recognized the new association and enacted rules requiring mutual fund dealers to become association members in February 2001.

√ We dealt with abuses in the sale of financial products exempt from disclosure and registration requirements by imposing new conditions of registration on mutual fund dealers that sell them to their clients. Exempt market products are excluded from certain requirements, i.e., that those selling the product must be registered to sell securities in the province and that a prospectus be produced and vetted by a securities commission.

√ We have set up a BCSC cross-divisional team, and together with colleagues from the Alberta Securities Commission (ASC), are developing changes to our exemption regime (exclusions from registration and disclosure requirements). The changes we seek will help business raise capital while protecting investors.

√ We conducted focus groups with marketplace participants, who presented their needs and concerns. Based on this research, we expect to make public this fiscal year several recommendations for changes in exemptions that address both issuer and investor concerns.

√ Working with the ASC, the BCSC became joint regulators for the oversight of the CDNX and established a protocol for its regulation with the Ontario Securities Commission and the Manitoba Securities Commission, as the CDNX took over listings from the Canadian Dealing Network in Ontario and the Winnipeg Stock Exchange in Manitoba.

√ We adopted a rule (Standards of Disclosure for Mineral Projects or National Instrument 43-101) after extensive consultation with the mining industry. This rule is designed to improve the quality of public disclosure of information about mineral projects. During this process, we established a consultative model that will be used to canvass all industry stakeholders about new regulatory proposals that affect them.

Objectives that we continue to pursue include:

- establishing a system of regulation for new automated trading systems (ATS) to operate in competition with exchanges, and
- working with the ASC to develop an audit program for the CDNX.

Meet the Demand for Increased Efficiency

Competition among capital markets is no longer contained within national borders. Both investors and those seeking the capital they offer are looking to international markets to provide acceptable service and market integrity at the lowest cost.

This trend places greater pressure on regulators to keep our markets competitive by streamlining internal processes and by improving the quality of service to stakeholders. However, as we eliminate unnecessary operational obstacles to ensure market efficiency, we must continue to protect investors from fraud and other abuses.

We must place more emphasis on the most effective forms of industry regulation – prevention and deterrence. We are doing this by encouraging a culture of compliance among registrants and issuers.

Securities markets operate at multiple levels. Some aspects of securities trading are national or international in scope, while others are highly localized. Securities regulation must also operate at several levels.

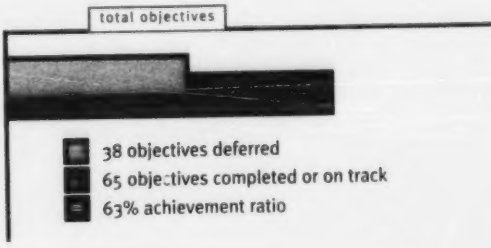
With our provincial system of regulation in Canada, we must work with our counterparts in other provinces to co-ordinate regulation of national and international securities business, while retaining the flexibility to deal with local issues. We are doing this through the Canadian Securities Regulatory System (CSRS), a regime designed to provide "one-stop shopping" for those wanting to access capital markets.

We are building the CSRS by harmonizing regulation and increasing mutual reliance among staff of the CSA members. So far, with our CSA colleagues, we have implemented the Mutual Reliance Review System (MRRS) for prospectus filings and for applications for discretionary relief from securities regulation. MRRS reduces the time and expense companies face when applying for approval to sell securities or applying for relief from certain regulations. The principal commission in whichever province or territory a company has its headquarters becomes the lead regulator in approving the application. In turn, we rely on the lead regulator's analysis when considering the same application in our province.

Stakeholders have encouraged us to continue developing this approach to deal with national filings. We plan to expand this approach to our registration, continuous disclosure review, and enforcement activities.

Achievement of Objectives

We have identified a greater number of initiatives to improve our internal efficiency. A factor that accounts for our lower than average achievement rate in this area. We have, however, made good progress on the following initiatives designed to make the BCSC a more efficient regulator.



☑ We cut the costs of raising capital in British Columbia by reducing more than 14 individual fees that apply to mutual fund companies and publicly traded companies on the CDNX, saving those groups up to $4 million. The initiative was designed to reduce costs and red tape for those who issue securities and to bring our fees more in line with costs.

√ We made progress developing a national Integrated Disclosure System (IDS), which is intended to provide investors in both the primary and secondary markets with timely prospectus-quality disclosure. In January 2000, we published for comment a concept proposal for adopting the system.

Proposed reforms under IDS include:

- improving the content, timing and standards of continuous disclosure reporting
- simplifying the content of prospectuses and the rules for delivering them to investors
- liberalizing the form, content and timing of marketing communications, and
- shifting the focus of regulatory review from prospectuses to continuous disclosure materials.

Our plan calls for IDS to be implemented as a national pilot project for two years, during which time we will solicit industry comments and suggestions for modifying it.

√ We published for comment a rule (Multi-lateral Instrument 45-102) to harmonize provincial restrictions that apply to persons selling securities they initially acquired under exemptions. This rule also permits a Canadian investor to sell the securities of a foreign issuer over a foreign exchange or market.

√ We also published for comment a rule (Multi-lateral Instrument 72-101) and an accompanying policy to facilitate the distribution of securities to persons outside an issuer's home jurisdiction.

We expect to adopt both of these rules in all provinces but Québec during the next year.

√ Policy and Legislation was the chief division working on a new streamlining program. We made substantial progress in this area and have eliminated more than 140 policies and rules that were out of date or of limited relevance to the securities community. All of our remaining policies and rules are being re-organized by subject matter so stakeholders will have easier access to the information. At the same time, we are applying standards of plain language to all new regulatory initiatives.

Objectives we continue to pursue in co-operation with our CSA partners include:

- creating an automated national registration system for securities dealers and advisers, and their employees
- creating a national electronic insider reporting system, and
- implementing mutual regulatory reliance for review of continuous disclosure by public companies.

Educate Investors and the Industry

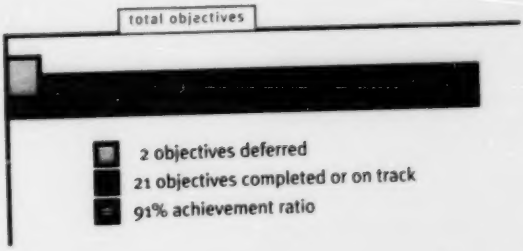
Retail investors are participating in equity markets in unprecedented numbers. Access to the Internet and the growth of discount brokerages has fuelled this trend and created new challenges for regulators. While some investors are using registrants as mere "order takers", others are relying more heavily on registrants for investment advice. Investors are also being offered a vast array of new investment products that provide opportunities for the discerning and sophisticated, but pose dangers for the unwary and ill-informed. We have increasingly emphasized education programs aimed at "street-proofing" the investor against fraud and inappropriate investment advice.

We are also focusing education programs on professional market participants to inform them of changes to regulatory requirements.

Plain language plays an important role in meeting the challenge to educate investors and the industry. Investors can better protect themselves and industry can better follow the rules if information is presented to both audiences in plain language.

Achievement of Objectives

We made excellent progress in educating our stakeholders this past year:



☑ We developed partnerships with several provincial credit unions to deliver a seminar called Investigate Before You Invest. The seminar features key messages that urge investors to invest through registrants in a regulated system, to understand and assess their own risk tolerance and to be wary of schemes that offer the unlikely combination of high returns with low risk. We continued to reach mainstream audiences by participating at trade shows such as the Financial Forum and Chinese Investment Forum. We also distributed a new series of columns to the province's 105 community newspapers.

☑ We provided money from our Education Fund to assist several groups to deliver investor education programs to seniors and youth. The fund consists of administrative penalties the BCSC levies against those who violate the *Securities Act*. Major contributions included disbursements totalling $278,000 to the Seniors' Foundation of BC, Junior Achievement of BC and the Investor Learning Centre.

☑ We undertook two key initiatives designed to inform and educate industry about new regulatory proposals. We held four seminars to explain the proposed Integrated Disclosure System (IDS) to various sectors of the securities industry, and we participated in two seminars and three mining trade shows to inform participants about new regulations for disclosure of mining standards. We also published a report detailing the findings of our continuous disclosure review program. The report, distributed to some 2,800 reporting issuers, has formed the basis of an ongoing education program to help public companies understand their continuous disclosure obligations.

We continue to pursue the following objectives to develop additional tools for investor education programs:

- publication of an introductory brochure on securities regulation in British Columbia
- a multi-media presentation that features interviews with victims, examples of fraudulent advertising, and the basics of investing
- development of plain language training for all BCSC staff with plans to extend the training to other interested CSA jurisdictions, and
- more effective use of the BCSC website to inform and educate the industry and the public about securities regulation.

Prepare the Commission for the Future

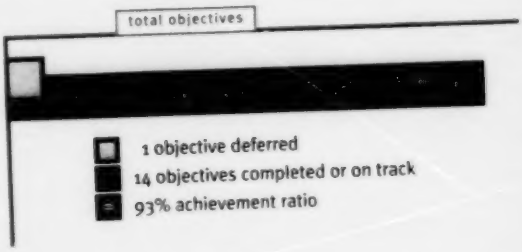
The history of capital markets shows that the securities industry is volatile and dynamic. Investment decisions, trading and other transactions are occurring at an increasingly faster rate. The BCSC must move quickly to assimilate information and to make decisions, policies and enforcement actions that are relevant to our goals of effecting outcomes and improving market behaviour. We must be competent, knowledgeable, honest and independent in our regulation of markets and protection of investors.

Our initiatives to address these issues last year included:

- playing a leading role in the CSA strategic planning process to encourage co-ordinated objectives and priorities for allocating staff resources
- establishing performance objectives for all BCSC staff and implementing an incentive program that rewards achievement of objectives
- develop management tools to improve productivity and efficiency
- introduce a performance measurement initiative, and
- managing the process of culture change towards an organization committed to service and timely results.

Achievement of Objectives

We are successfully moving from a traditionally bureaucratic structure to one that relies more on delegated authority, teamwork and consultation to allocate resources and solve problems.



☑ We established a performance management system that focuses not only on precisely identifying problems and solutions but also encourages staff to assess how they performed in achieving those solutions. The core attributes of problem solving, drive for results, teamwork and co-operation, and effective communication became yardsticks to assess our effectiveness in achieving defined objectives. These attributes became a key part of assessing

individual performance in the past year. Performance management also served as a critical tool in evaluating promotions, salary levels and incentive pay for all staff.

√ We established a means of assessing our stakeholders' perception of how well we serve them. We conducted a performance measures survey in October 2000 and presented the results to the commissioners and staff. These results will serve as a benchmark against which future performance will be measured and to help determine the overall performance of the BCSC each year.

√ We also re-organized the BCSC's internal structure to help us meet operational objectives. Major initiatives included:

- the merging of registration and compliance functions into a new division called Capital Markets Regulation
- converting almost all of our 80,000 paper files into electronic form – saving office space and making all these records available to staff on our local area network and many records available to the public on our website, and
- creating a new department – Knowledge Management Services – to ensure accurate and timely delivery of information to staff, industry and the public.

Other objectives we continue to pursue include:

- implementing priority setting within the CSA to ensure an effective use of internal resources and CSA committees
- planning for succession of management personnel, and
- finalizing a plan to ensure the BCSC continues to operate effectively during a natural disaster or emergency.

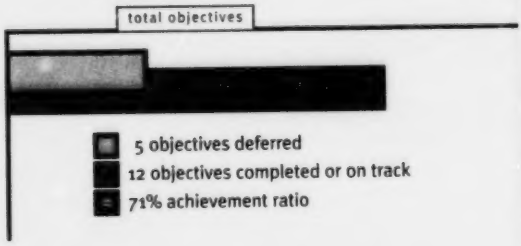
Enhance Deterrence through Enforcement Initiatives

With securities markets expanding on a global scale, traditional after-the-fact enforcement will become steadily less effective unless it is accompanied by creative, internationally co-ordinated deterrence approaches. A core CSA strategy is to provide effective deterrence of abusive, unfair and fraudulent practices through aggressive co-ordinated enforcement.

We also set objectives to renew our emphasis on seeking enhanced civil and criminal deterrents.

Achievement of Objectives

We made good progress in achieving our deterrence objectives:



√ The Enforcement Division established the Enforcement Surveillance Intelligence Unit (ESIU) to ensure that information from other divisions within the Commission is used in seeking enhanced civil and criminal deterrents. This unit, supported by a committee of representatives from each of the other Commission divisions, has a mandate to anticipate enforcement problems and help the Commission act in a timely way. It does this by tracking the activities of those who have already been sanctioned by the Commission and by identifying trends and alerting the Commission to the possible outcomes of those trends.

☑ Enforcement also set up the Charge Approval Project (CAP). With courts and administrative tribunals applying different standards, we began to develop cases in such a way that they could be successful in the criminal court system. In consultation with the BC Attorney General's office, we developed procedures for referring cases for criminal prosecution. Four such cases were successfully prosecuted by this means. In one notable case, Michael Mitton entered a guilty plea on December 23, 2000, on six counts of fraud and was sentenced to four years in jail.

☑ We also developed investor education initiatives in conjunction with the Vancouver School Board. BCSC staff, including investigators from Enforcement, presented seminars about the risks associated with investing on the Internet and the BCSC Investigate Before You Invest seminar series.

Enforcement

Hearings

One of the roles of the BCSC is to enforce the *Securities Act*. Following a public hearing and after considering the public interest, the BCSC may issue orders banning a person from the securities markets, imposing financial penalties or assessing investigation and hearing costs. Since the last annual report, the BCSC has issued 20 decisions, including procedural rulings, findings, and penalty orders. These decisions may be viewed at www.bcsc.bc.ca. Some significant decisions are described on the following pages.

TAC International Ltd. and Craig Southwood

TAC International Ltd. failed to live up to a 1999 settlement. In June 2000, a panel of commissioners found that Craig Southwood, the company's president, was responsible for the failure. The panel banned him from the BC securities markets and ordered him to pay an administrative penalty.

"The executive director relies on the undertakings of the respondents who make them," the panel said in its decision. "If the executive director cannot rely on such undertakings, the integrity of the settlement process is compromised. This is contrary to the public interest, which is served by the resolution of allegations through the settlement process in appropriate circumstances."

Exchange Bank and Trust

In connection with an investigation of illegal trading in BC and the US, a commissioner froze the Vancouver accounts of Exchange Bank and Trust, a private international bank located in the Caribbean nation of Nevis. One account contained $16.9 million (US).

Exchange Bank and Trust appealed the freeze orders. In May of 2000, a panel of commissioners confirmed the orders. The panel declined to accept the affidavit evidence of a senior bank officer denying wrongdoing, found that the Nevis privacy laws were not relevant and refused to permit Exchange Bank and Trust to cross-examine Commission staff.

Exchange Bank and Trust applied for leave to appeal the decision. In the fall of 2000, the BC Court of Appeal confirmed that the panel had not infringed the rules of natural justice or exceeded its jurisdiction and dismissed the application.

Noram Capital Management Inc. and Andrew Willman

A panel of commissioners cancelled the registration of portfolio manager Noram Capital Management Inc. in March 2000. Noram had failed to meet working capital requirements, filed misleading financial statements and misled Commission staff. The panel found that Andrew Willman, the president of Noram, was responsible for Noram's contraventions of securities legislation and banned him from the BC securities markets.

Jean-Claude Hauchecorne

In August 2000, a panel of commissioners banned Jean-Claude Hauchecorne from the BC securities markets for 20 years.

The penalty was based on conduct considered by the Canadian Venture Exchange (CDNX) in a 1999 hearing. Following that hearing, CDNX permanently removed Hauchecorne's right to act as a broker, fined him $200,000 and ordered him to give up $95,000 in commissions and to pay the costs of the hearing.

The panel found that Hauchecorne was an experienced broker who failed to discharge his responsibilities under the "know your client" (KYC) rule, one of the most fundamental and important obligations of a registrant.

In its decision, the panel said: "The KYC rule is described in the *Conduct and Practices Handbook* as the 'cardinal rule'. Compliance by registrants with both the letter and the spirit of the rule is essential to their responsibility to act in the best interests of their clients and to uphold the integrity of the market. Hauchecorne has been found to have deliberately ignored this fundamental principle."

Robert Hartvikson and Blayne Johnson

In June 2001, a panel of commissioners banned Robert Hartvikson and Blayne Johnson from the BC securities markets for a year and ordered each to pay an administrative penalty of $100,000.

This case was primarily about the failure of Hartvikson and Johnson to address the conflicts of interest that arose because they were in a group of First Marathon brokers that controlled Cartaway Resources Corporation when First Marathon acted as agent in two financings for Cartaway.

The panel found that:

- the control group acquired Cartaway shares in the first financing at a price that did not reflect the material changes in Cartaway
- Hartvikson and Johnson sold Cartaway shares to their clients in the second financing using an offering memorandum that they knew did not disclose all the material facts, and
- Hartvikson and Johnson deceived and misled First Marathon and its clients (including Cartaway), CDNX, the public and Commission staff.

First Marathon, the local manager and three other members of the control group had entered into settlements before the hearing.

In determining what orders were appropriate in the public interest, the panel considered the seriousness of the conduct and the resulting damage done to the integrity of the capital markets; the settlements; the lack of supervision by First Marathon (both senior management and the local manager); the trading profits made by the control group; the reliance on a legal opinion in distributing Cartaway shares to other employees; the surrender of broker registration in 1996, and the regulatory history.

Paul and Betty Schiller

Last October, the Schillers were banned from the BC securities markets and ordered to pay administrative penalties. The case related to a financing for Quinto Mining Corporation. The panel found that the Schillers had filed false documents with the BCSC and CDNX, that Betty Schiller had perpetrated a fraud on an investor, and that both the Schillers had perpetrated a fraud on Quinto.

Nirbhia Singh Gill

In May of this year, a panel of commissioners banned Nirbhia Singh Gill from the BC securities markets and ordered him to pay an administrative penalty for committing fraud in connection with the distribution of securities.

Gill was a salesperson with Investors Group Financial Services. He left the business and about one year later re-established contact with P. Brown, a former client. Brown gave Gill $20,000 for investment. However, Gill used the money to pay debts. The panel found that Gill had perpetrated a fraud on Brown.

Jack Weatherall

In September 2000, a panel of commissioners banned Jack Weatherall from the BC securities markets and ordered him to pay an administrative penalty.

Weatherall set up a boiler room for promoting shares of junior companies based on misrepresentations. One company was Goanna Resources Inc., which was quoted on the over the counter bulletin board in the US. He touted the company's nickel deposits as potentially twice the size of Voisey's Bay, one of the largest mineral discoveries in Canada in the last decade. He told investors that their shares would at least double when the company's secondary drilling results came in.

Reviews

When CDNX or the Investment Dealers Association make a decision, the executive director or any person affected by the decision may appeal to the BCSC. The BCSC has issued 10 decisions on appeals since the last annual report. The full text of these decisions may be viewed at www.bcsc.bc.ca. Some significant decisions are described below.

Arthur Murray Smolensky

In January 2000, a CDNX hearing panel ordered Arthur Smolensky to provide pre-hearing disclosure to exchange staff (including a witness list), a summary of the witnesses' evidence and a list of documents Smolensky intended to rely on.

Smolensky appealed the CDNX decision and argued that he had no duty to disclose the details of his defence.

A panel of commissioners upheld the CDNX decision and stated that the disclosure order was consistent with the nature and function of securities regulation, and was narrower than what would be required in hearings before the Toronto Stock Exchange and other securities regulators.

Owen D. Richman and Michael J. Hordo

Last year, in separate proceedings, panels of commissioners confirmed CDNX decisions that found Owen Richman and Michael Hordo, a Vancouver lawyer, unacceptable as directors and officers of CDNX listed companies. The panel dismissed the appellants' arguments that CDNX failed to follow rules of procedural fairness, did not have sufficient evidence to reach its decision and did not have the authority to make the decision.

Settlements

Not all enforcement matters lead to a hearing. In some cases, persons who have contravened securities legislation enter into settlements with the executive director. Since the last annual report, the executive director has entered into 24 settlements. Some significant settlements are described below.

Canaccord Capital Corporation and John Brian Johnston

Last summer, Canaccord Capital Corporation and one of its brokers, John Brian Johnston, reached settlements related to the stock fraud perpetrated by Gary Stanhiser, a former pastor in the Seventh Day Adventist Church. Over 300 investors lost more than $11 million. Many were members of the church; 140 were clients of Canaccord.

Canaccord failed to:

- make inquiries to learn the essential facts relative to every client
- establish and apply written prudent business procedures for dealing with clients, and
- supervise its employees adequately and properly, and to deal properly or fairly with its clients.

These failures resulted in Canaccord contravening several key legislative requirements for registrants. Johnston was one of the employees. He failed to comply with the "know your client" (KYC) rule and unwittingly participated in illegal distributions related to the stock fraud.

Canaccord paid the BCSC $428,000 and agreed to pay for a compliance audit. Johnston agreed to successfully complete the *Conduct and Practices Handbook Exam* and paid the BCSC $102,000, which included his commissions and fees earned in the stock fraud.

A panel of commissioners had previously imposed a lifetime trading ban and a $100,000 penalty against Stanhiser for perpetrating the fraud.

Fundex Investments Inc.

Fundex Investments Inc., a mutual fund dealer with Ontario registration, carried on business as a mutual fund dealer in BC without being registered. Fundex agreed to become registered and to pay the BCSC $70,000, which includes sales commissions earned.

Canadian American Financial Corporation (Canada) Limited

Canadian American Financial Corporation (Canada) Limited is a scholarship plan dealer under securities legislation. It allowed some unregistered sales representatives to sell plans and failed to adequately supervise its representatives. The company agreed to pay $22,500 to the BCSC; to offer clients the right to rescind their purchases of scholarship plans; to pay to the BCSC the sales commissions that it earned improperly, and to rectify all compliance deficiencies.

Jimmy John

Jimmy John was banned from the BC securities markets for 10 years. The order was based on a decision by the Alberta Securities Commission regarding his conduct as president of Naxos Resources Ltd.

Glen Elmo White
David Walford Thomas
and Douglas Michael Edgar

Glen White, David Thomas and Douglas Edgar were banned from the BC securities markets following convictions under securities legislation in the provincial court. White and Thomas made misrepresentations in brochures, newsletters, news releases and offering memoranda. Edgar made illegal distributions and representations.

Ranbir Singh Dhaliwal

Ranbir Singh Dhaliwal was banned from the BC securities markets for six years, following an earlier settlement agreement with CDNX. Under the CDNX settlement, Dhaliwal admitted to serious contraventions of the bylaws and rules of the exchange and agreed to significant penalties. In the BCSC settlement, he also admitted to violations of the *Securities Act* and rules.

David Michael Patterson
Edward Gunnar Kennedy
and John W. Pfeffer

David Patterson, Edward Kennedy and John Pfeffer failed to file insider reports in accordance with securities legislation. Patterson agreed not to trade and not to be a director or officer for 15 months and to pay $50,000 to the BCSC. Kennedy agreed not to be a director or officer for two years. Pfeffer agreed not to trade for six months and to pay $20,000 to the BCSC.

Steven John Moran
Robin J. McPherson
Mark Maradei
Walt Bills
and Thomas Landon Croft

Steven Moran, Robin McPherson, Mark Maradei and Walt Bills, US residents, were banned from the BC securities markets for 20 years for operating a telemarketing scheme where investors were offered securities in businesses selling goods through the Internet. Thomas Croft, a resident of BC, was banned from the BC securities market for eight years and agreed to pay $10,000 to the BCSC and to complete a directors and officers course.

Blue Energy Canada Inc.
BO Gas Limited, John Chato
and John Thuot
Capricorn Communication Corp.
and Richard Fenner
Sea Tank Systems Corporation
and David Reg Lewis

Blue Energy Canada Inc., BO Gas Limited, Capricorn Communications Corp. and Sea Tank Systems Corporation distributed their securities to BC investors. Each did so without being registered and without filing a prospectus, in contravention of securities legislation. Each agreed to offer rescission to the investors and to make payments to the BCSC. Fenner was banned from the BC securities market for six months.

Management Discussion and Analysis of Financial Condition and Results of Operations

Total revenues for the fiscal year ended March 31, 2001, were $31.8 million, compared with $27.3 million in fiscal 2000. This 17 per cent increase exceeded projections and was due in part to strong growth in registrations and mutual fund prospectus filings, offset in part by fee reductions and eliminations during the year. Revenue from registration fees was $6.7 million, up from $6.1 million in fiscal 2000, while revenue from prospectus filings and other distribution fees was $16 million, up from $13.3 million in the prior year. We reduced or eliminated 14 fees on January 1, 2001, and expect revenues for fiscal 2002 to fall by $4.5 million as a result.

Administrative penalties and designated settlements were $1.8 million, compared to $0.3 million in 2000. Two thirds of this revenue came from two settlements. Enforcement cost recoveries were $0.3 million, down from $1.2 million in 2000. One half of this revenue came from one settlement.

Operating expenditures for the year were $23.8 million, up from $19.8 million in 2000. Expenditures on salaries and benefits increased because we filled job vacancies outstanding from the prior year and implemented a new incentive plan to help attract and retain qualified staff. Salaries and benefits costs accounted for 69 per cent of total operating expenditures.

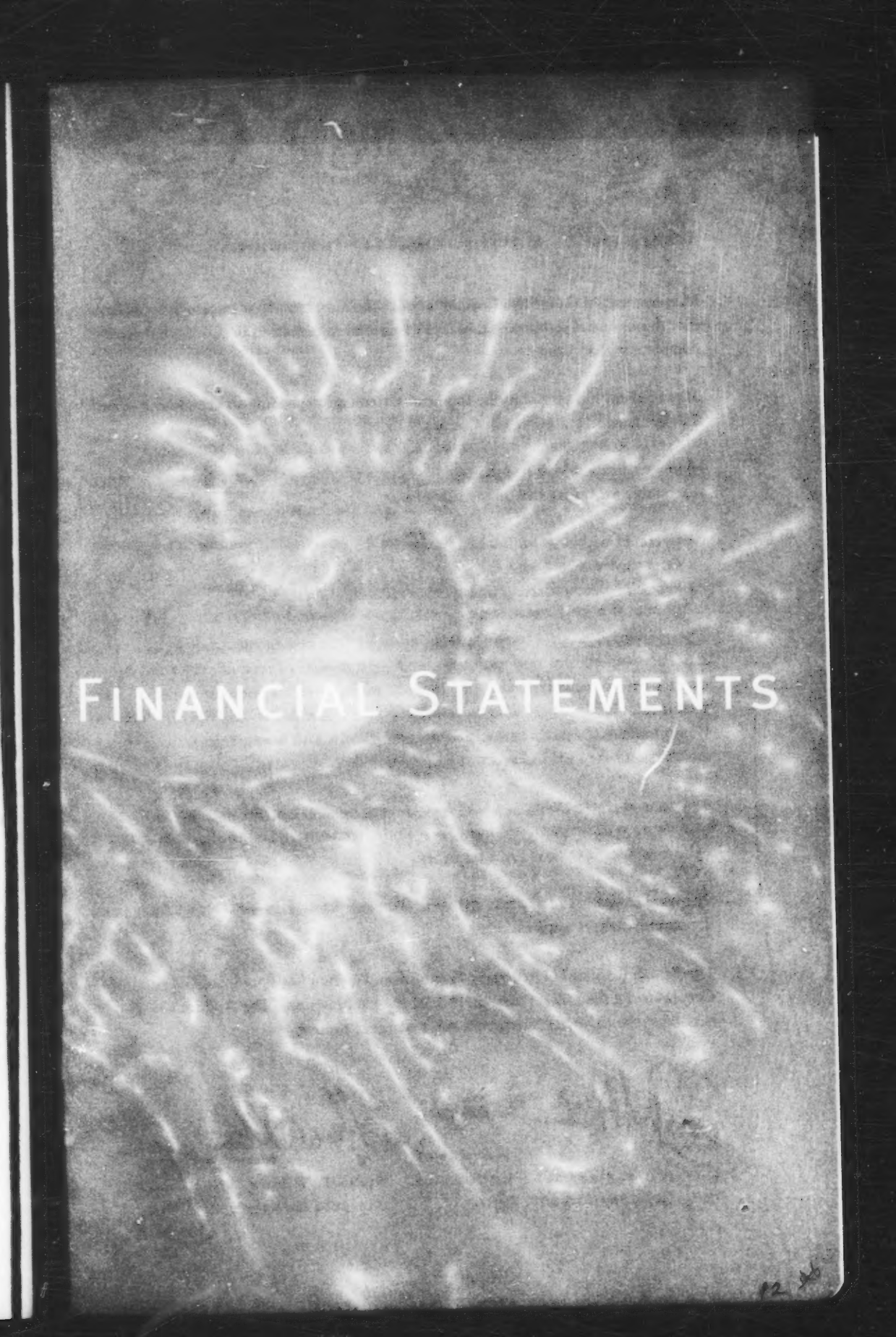
Expenditures for the year increased in part because of our December 2000 move to new premises at 701 West Georgia Street. Rent increased to $1.5 million from $1.3 million in the prior year, reflecting a decrease in lease costs offset by our move to a larger location. Depreciation increased from $1.1 million in 2000 to $1.4 million because of the shortened useful lives of the assets at our old location. Administration increased to $1.2 million in 2001, up from $0.8 million in 2000 in part because of one-time moving costs.

Information technology expenditures decreased from $1.1 million in 2000 to $0.7 million in 2001 because we have reduced our need for consulting services by adding new staff.

Expenditures from the Education Reserve increased from nothing in 2000 to $0.3 million in 2001. The *Securities Act* requires us to spend penalties levied under section 162 for the purpose of promoting knowledge of participants in the securities market of the legal, regulatory and ethical standards that govern the operation of the securities market in British Columbia. During fiscal 2001, we spent $0.3 million to fund educational initiatives of three organizations.

The overall operating surplus for fiscal 2001 was $8.1 million, an increase of $0.6 million from fiscal 2000.

Our long-term plan is to break even. We have a $12 million Fee Stabilization Reserve to ensure that an unexpected drop in revenue will not lead to an immediate fee increase to market participants. We will draw upon the reserve in future years if fee revenue falls below existing and anticipated commitments.


FINANCIAL STATEMENTS

Statement of Management Responsibility

Management of the British Columbia Securities Commission is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

Management has prepared the financial statements according to accounting principles that are generally accepted in Canada.

Management develops and maintains systems of control that give the Commission reasonable assurance that management has:

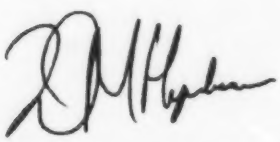
- operated within its authorized limits
- safeguarded assets, and
- kept complete and accurate financial records.

The commissioners are responsible for ensuring that management fulfills its financial reporting and control responsibilities, and have appointed an audit committee to oversee the financial reporting process. The majority of the committee members are part-time commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly with management, the internal auditors and the external auditors to review the:

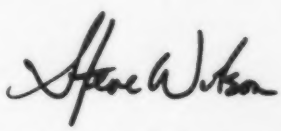
- financial statements
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

The audit committee has reviewed these financial statements and has recommended the commissioners approve them.

The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.



Douglas M. Hyndman
Chair and Chief Executive Officer



Steve J. Wilson
Executive Director

Report of the Auditor General of British Columbia

To the Commissioners of the British Columbia Securities Commission, and
To the Minister of Competition, Science and Enterprise,
Province of British Columbia:

I have audited the balance sheet of the *British Columbia Securities Commission* as at March 31, 2001 and the statements of operations, of surpluses, and of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *British Columbia Securities Commission* as at March 31, 2001 and the results of its operations, its surpluses, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

Victoria, British Columbia
May 11, 2001

Wayne Strelioff, CA
Auditor General

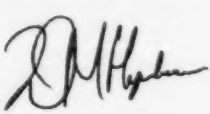
BALANCE SHEET AS AT MARCH 31

	2001	2000
ASSETS		
Current assets:		
Cash and short term investments (note 4)	$ 16,105,007	$ 14,347,917
Accounts receivable (note 5)	275,529	270,914
Prepaid expenses and deposits	41,664	241,894
	16,422,200	14,860,725
Investments held for designated purposes (note 6)	15,241,487	13,642,928
Capital assets (note 7)	7,199,539	2,159,261
	$ 38,863,226	$ 30,662,914
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,294,102	$ 836,480
Accrued salaries	1,553,643	564,135
Deferred revenue	4,412,617	4,726,270
Employee leave liability (note 8)	1,030,751	1,211,393
	8,291,113	7,338,278
Deferred rent	237,550	–
Deferred revenue	533,381	1,593,466
	770,931	1,593,466
SURPLUSES		
Contributed (note 1)	1,415,018	1,415,018
General	13,144,677	6,673,224
Fee stabilization reserve (note 6a)	12,000,000	12,000,000
Education reserve (note 6b)	3,241,487	1,642,928
	29,801,182	21,731,170
	$ 38,863,226	$ 30,662,914

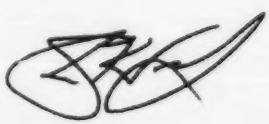
Note 12 describes a commitment and a contingent liability.

The accompanying notes are part of the financial statements.

Approved by the Commission:



Douglas M. Hyndman
Chair



John K. Graf
Member

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31

	2001	2000
REVENUES		
Fees:		
Prospectus and other distributions	$ 15,970,237	$ 13,333,269
Financial filings	3,881,271	3,640,967
Registration	6,658,911	6,147,358
Exemptions and orders	1,245,412	1,272,621
Other	172,410	179,240
Administrative penalties and designated settlements (note 9)	1,756,670	268,960
Enforcement cost recoveries (note 9)	269,875	1,234,586
Investment income	1,873,692	1,253,950
	31,828,478	27,330,951
EXPENSES		
Salaries and benefits (note 11)	16,366,256	13,354,169
Rent	1,464,916	1,278,790
Depreciation	1,396,304	1,135,117
Professional services	1,163,026	855,378
Administration	1,199,107	801,608
Information technology	707,111	1,132,312
External communications	395,232	475,902
Business travel	361,098	368,934
Staff training	309,781	277,709
Education reserve (note 6b)	281,750	–
Telecommunications	113,885	124,843
	23,758,466	19,804,762
EXCESS OF REVENUES OVER EXPENSES	$ 8,070,012	$ 7,526,189

The accompanying notes are part of the financial statements.

STATEMENT OF SURPLUSES FOR THE YEAR ENDED MARCH 31

	CONTRIBUTED	GENERAL	FEE STABILIZATION RESERVE (NOTE 6a)	EDUCATION RESERVE (NOTE 6b)	TOTAL
Balance, March 31, 1999	$ 1,415,018	$ 1,488,404	$ 10,000,000	$ 1,301,559	$ 14,204,981
Excess of revenues over expenses of the year	–	7,526,189	–	–	7,526,189
Appropriation during the year	–	(2,341,369)	2,000,000	341,369	–
Balance, March 31, 2000	1,415,018	6,673,224	12,000,000	1,642,928	21,731,170
Excess of revenues over expenses of the year	–	8,070,012	–	–	8,070,012
Appropriation during the year	–	(1,598,559)	–	1,598,559	–
Balance, March 31, 2001	$ 1,415,018	$ 13,144,677	$ 12,000,000	$ 3,241,487	$ 29,801,182

The accompanying notes are part of the financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	$ 26,660,166	$ 25,095,640
Cash receipts from penalties and settlements	2,026,545	268,960
Cash paid to employees	(15,647,048)	(12,726,783)
Cash paid to suppliers and others	(4,946,807)	(4,476,436)
Investment income received	1,911,692	1,227,289
	10,004,548	9,388,670
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Paid for capital assets	(6,648,899)	(1,381,213)
Net increase in cash and cash equivalents	3,355,649	8,007,457
Cash and cash equivalents, beginning of year	27,990,845	19,983,388
Cash and cash equivalents, end of year	$ 31,346,494	$ 27,990,845
Represented by:		
Cash and short term investments	$ 16,105,007	$ 14,347,917
Investments held for designated purposes	15,241,487	13,642,928
	$ 31,346,494	$ 27,990,845

The accompanying notes are part of the financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2001

1. NATURE OF OPERATIONS

The British Columbia Securities Commission is a Crown corporation created by the Province of British Columbia on April 1, 1995. We regulate the trading of securities and exchange contracts in BC. As a government agency, we pay only those taxes paid by the provincial government.

The BC government transferred assets and liabilities with a net value of $1,415,018 to us on April 1, 1995. This amount is our contributed surplus.

2. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements according to accounting principles that are generally accepted in Canada. The important accounting policies used are:

a) Short term and designated investments

Under BC law, we must invest any money that we receive, but do not immediately need, in an investment pool that the British Columbia Investment Management Corporation administers. We buy units in pooled investment funds that invest primarily in:

- Canadian money market instruments maturing within 15 months, and
- Canadian bonds issued or guaranteed by the government of Canada or a provincial government and maturing within 10 years.

Any earnings from our investments are reinvested in the same fund and add to the carrying value of the units we own. We value our short term investments and investments held for designated purposes at the lower of their carrying value or their market value.

b) Capital assets

We record our capital assets at cost. We depreciate them using the straight line method over their useful lives. We estimate the useful lives of our assets to be as follows:

- Information technology assets – three years
- Leasehold improvements – the length of the remaining lease term or the length of the estimated useful life of each improvement, whichever time is shorter
- Office furniture and equipment – ten years

c) Revenue

We recognize prospectus and other statutory filing fees when we receive the cash.

Registration fees are paid to us in advance. We recognize only the portion of fees that relate to the registration period falling in the fiscal year as revenue. We treat the balance as deferred revenue and recognize it as income in the next year.

We recognize administrative penalties, settlements, and recoveries of enforcement costs as revenue only if it is likely that we will collect these amounts in the future. If not, we include them in our revenue when we receive payment.

d) Use of estimates

Canadian generally accepted accounting principles require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements management has estimated the:

- portion of accounts receivable that we will actually receive
- useful lives of capital assets, and
- value of the employee leave liability.

Actual results may differ from these estimates.

e) Comparative figures

Some of the amounts reported for 2000 have been reclassified to conform to this year's presentation.

3. FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalent assets, accounts receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability, approximate their fair value because of their short maturity dates.

Short term investments and investments held for designated purposes are subject to credit risk and interest rate risk. Credit risk is the risk that investment values will fluctuate because debtors cannot pay. We believe this risk is low because most of our investments are in government securities. Interest rate risk is the risk that investment values will fluctuate because of changes in market interest rates. We mitigate this risk by holding diversified short term bond portfolio units that are redeemable on a monthly basis. Therefore, the fair value of short term investments and investments held for designated purposes is considered to be the market value (see notes 4 and 6).

4. SHORT TERM INVESTMENTS

As at March 31, 2001, our short term investments consist of 5.31 units of the Pooled Canadian Money Market Fund ST2 having a carrying value of $15,086,068, and a market value of $15,107,303.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2001

5. ACCOUNTS RECEIVABLE

Accounts receivable consists of:

	2001	2000
Registration fees	$ 63,949	$ 169,613
Interest	10,000	48,000
Pension contribution rebates	112,500	22,842
Other	89,080	30,459
	$ 275,529	$ 270,914

6. INVESTMENTS HELD FOR DESIGNATED PURPOSES

	FEE STABLIZATION (a)	EDUCATION (b)			
	APPROPRIATION	SECTION 162	APPROPRIATION	TOTAL	TOTAL
Balance, March 31, 1999	$ 10,000,000	$ 213,519	$ 1,088,040	$ 1,301,559	$ 11,301,559
Additions	2,000,000	12,000	256,960	268,960	2,268,960
Investment income allocation	–	10,201	62,208	72,409	72,409
Disbursements	–	–	–	–	–
Balance, March 31, 2000	12,000,000	235,720	1,407,208	1,642,928	13,642,928
Additions	–	139,716	1,616,954	1,756,670	1,756,670
Investment income allocation	–	16,199	107,440	123,639	123,639
Disbursements	–	–	(281,750)	(281,750)	(281,750)
Balance, March 31, 2001	$ 12,000,000	$ 391,635	$ 2,849,852	$ 3,241,487	$ 15,241,487

Investments held for designated purposes consist of:

- 4.2 units of the Short Term Bond Fund having a carrying value of $6,032,467 (after a $22,289 write down to market) and a market value of $6,032,467, and
- 3.24 units of the Pooled Canadian Money Market Fund ST2 having a carrying value of $9,209,020 and a market value of $9,218,016.

a) Fee Stabilization Reserve

In 1999 and 2000, we appropriated portions of our general surplus to the fee stabilization reserve to ensure that, if our revenue were to drop in the future, we would not have to raise our fees immediately. We will draw upon the fee stabilization reserve if our fee revenues fall below our spending needs.

b) Education Reserve

We collect administrative penalties under section 162 of the *Securities Act*. We also negotiate settlement amounts that exceed the costs of our investigations. We appropriate both of these amounts from our general surplus to the education reserve. Education reserve funds may only be spent to promote BC participants' knowledge of the legal, regulatory, and ethical standards that govern the BC securities market. Although no legal requirement exists, we also allocate a portion of our investment income to the education reserve to ensure that we do not indirectly benefit from holding these funds.

7. CAPITAL ASSETS

Capital assets consist of:

	2001			2000
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Leasehold improvements	$ 3,782,963	$ 110,629	$ 3,672,334	$ 456,130
Office furniture	1,697,812	49,906	1,647,906	125,062
Office equipment	556,486	122,675	433,811	271,489
Information technology assets	2,535,550	1,090,062	1,445,488	1,306,580
	$ 8,572,811	$ 1,373,272	$ 7,199,539	$ 2,159,261

8. EMPLOYEE LEAVE LIABILITY

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

9. ENFORCEMENT REVENUE

Due to collection uncertainty, we have not recognized revenue from administrative penalties, settlements, and enforcement cost recoveries until we received payment. Therefore, enforcement revenue includes the collection of penalties, settlements, and recoverable costs assessed in both the current and prior years, as follows:

	ADMINISTRATIVE PENALTIES AND DESIGNATED SETTLEMENTS		ENFORCEMENT COST RECOVERIES	
	2001	2000	2001	2000
Current year	$ 1,539,379	$ 241,340	$ 131,000	$ 1,171,510
Prior years	217,291	27,620	138,875	63,076
	$ 1,756,670	$ 268,960	$ 269,875	$ 1,234,586

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2001

During the year, in addition to these amounts, administrative penalties, settlements, and enforcement cost recoveries of $804,344 (2000 - $2,445,931) were not recognized as revenue because we did not receive payment. We keep records of all penalties, settlements, and recoverable costs for collection purposes.

10. RELATED PARTY TRANSACTIONS

We are related through common ownership to all provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

11. POST-RETIREMENT EMPLOYEE BENEFITS

We, and all eligible employees, contribute to the Public Service Pension Plan, a multi-employer, defined benefit pension plan. The British Columbia Pension Corporation administers this plan and pays pension and other benefits on behalf of employers. We recognize our annual contribution to the pension plan as our cost for employee future benefits.

Commencing on January 1, 2001, trustees of plan members and employers manage the plan jointly. As a result of this change, plan members will share the risks and rewards of any unfunded liability or surplus with the employers. An unfunded liability or surplus could change our future contributions.

An actuarial valuation of the assets and liabilities of the pension plan made at March 31, 1999, indicated there was a surplus. Because of this and previous evaluations, we received rebates of our contributions totalling $474,913 during the year (2000 - $543,582). These rebates reduced our salaries and benefits expense.

12. COMMITMENT AND CONTINGENT LIABILITY

a) *Office lease*

We have leased office space to November 2011. Our annual rent is approximately $800,000 until November 2006, and $975,000 after that date. We also pay our share of building operating and maintenance costs.

b) *Mutual Fund Dealers Association of Canada*

The mutual fund industry formed the Mutual Fund Dealers Association of Canada as a self-regulatory organization. Together with the Ontario Securities Commission and the Alberta Securities Commission, we guaranteed the Association's credit line with a Canadian bank. The maximum obligation of the three commissions under the guarantee is $12 million. Our portion of the guarantee is capped at 21% of the outstanding credit line, which was $7,923,000 on March 31, 2001.

LOOKING FORWARD

Looking Forward

"The essence of crafts lies in picking the right tool for the job, knowing when to use them in combination, and having a system for recognizing when the tools are inadequate so that new ones can be invented."

— Malcolm Sparrow, *The Regulatory Craft*

We are constantly seeking ways to do a better job of protecting investors and promoting market efficiency. Although the two aspects of our mandate may sometimes appear to be in conflict – they actually complement each other. We can best pursue both goals by being efficient and economical in using the tools at our disposal – our resources and authority – and targeting them at the most important challenges.

Focusing on the most important challenges requires us to resist the temptation and pressure to work on everything at once. Our list of things we would like to do is much longer than the list of things we can practically do. We have therefore used the discipline of our strategic planning process to identify six key challenges that we will work on over the coming year.

Challenge 1: Excessive Regulatory Burden on the Securities Market

Securities markets are changing rapidly. As markets grow in size and complexity, regulation has followed suit. The result is an excessive burden of regulation that drives up the cost of doing business and makes it difficult for the relatively small Canadian capital market to compete globally.

Market participants have complained about the volume and complexity of regulation and what they consider the "inflexible" interpretation and application of policies and rules.

To improve efficiency and increase competitiveness, we are working with our colleagues in the Canadian Securities Administrators (CSA) toward a common approach to regulation. For several years, we have been developing the Canadian Securities Regulatory System (CSRS) – a harmonized system of policies, rules and practices – in an effort to provide effective protection for investors and efficient service to the securities markets, while retaining the regional flexibility of Canada's provincial system of securities regulation. To make the CSRS truly effective, however, we have to go further in developing a shared view of regulatory priorities and how to address them. The BCSC is taking a leadership role in that process.

We are also streamlining our own published materials and information in direct response to market participants' complaints about the volume and complexity of regulations. We are continuing to review policies and rules to eliminate those that no longer serve a useful purpose and updating those that should remain in effect. As an important part of that effort, we are committed to drafting our documents in plain language that is unambiguous and easily understood by market participants.

As part of our effort to harmonize securities regulation, we are working with the Alberta Securities Commission to develop a new and more relevant set of capital-raising exemptions.

We are also working with the other members of the CSA to develop the Integrated Disclosure System (IDS), which would shift the emphasis of disclosure regulation from the prospectus issued when a company makes a public offering of its securities to the ongoing disclosure that every public company makes to the market.

The first step planned in implementing IDS is to harmonize continuous disclosure requirements across jurisdictions to simplify the disclosure obligations for public companies.

Ultimately, when IDS is fully implemented, we will provide issuers with faster, more flexible access to markets, and give investors more timely and comprehensive continuous disclosure in the secondary markets where the vast majority of Canadians invest their money.

We are working through CSA on two systems projects to provide better information for investors while simplifying compliance.

The System for Electronic Data on Insiders (SEDI) should be in operation during 2001-02, to provide a single electronic window for insiders to file their trading reports and for the public to view them.

The national registration database is a longer-term project aimed at providing a similar facility for registering securities dealers, advisers and their employees.

These systems will complement the SEDAR system, which contains all disclosure documents filed by public companies and mutual funds.

Challenge 2: Cost to the Market of Regulatory Delays

We have made significant progress in the past few years, at both the BCSC and the CSA level, in completing projects and improving processes. However, our projects usually take too long to complete and some important processes are still too slow.

Delays in our regulatory projects and processes impose costs on market participants. For example, when a policy project takes years to complete, the original problem may very well have changed, making the initial work fruitless and creating further delays because of the need to propose new solutions. Meanwhile, the market is denied the benefit of more updated rules and policies.

Similarly, delays in processing applications affect the cost of transactions and delays in completing investigations may allow market misconduct to continue or weaken the deterrent effect of enforcement proceedings.

We have identified specific projects to help reduce regulatory delays. In Enforcement, we are developing a process to reduce the average number of cases handled by each investigator and the time taken by the litigation department to bring matters to a conclusion.

In Exemptions and Orders, we are developing more general exemption orders so individual companies do not have to apply for common types of relief from regulation.

We are also expanding the use of cross-divisional work teams to allow in-house staff to focus its expertise on novel or complex applications, issues and projects.

We are also developing a network of contacts with people in the industries that are important to the economic success of our province so that staff can keep pace with the rapidly changing capital markets and needs of these stakeholders.

We are trying to shorten the development period for policy and legislation projects by improving the strategic planning and project management processes of CSA and by focusing CSA and BCSC staff resources on a smaller number of important projects.

Challenge 3: Lack of Compliance by Registrants

The reputation of the BC capital markets is harmed when firms based here engage in inappropriate and illegal market activities in local or foreign markets. We have conducted examinations of several firms and concluded that their compliance systems and practices are deficient.

In partnership with the Investment Dealers Association of Canada (IDA), we plan to improve compliance by developing monitoring and support programs to encourage a culture of compliance in firms where examinations have revealed problems.

Our compliance initiatives include:

- raising the BCSC's profile in the securities industry
- communicating that the BCSC is serious about improving compliance with securities rules and regulations in the local brokerage community
- emphasizing the "gatekeeper responsibility" of securities professionals, and
- developing and presenting a series of seminars to compliance staff and registered representatives.

Another way Capital Markets Regulation will address this problem is to create compliance "report cards" for IDA member firms. These reports will show firms where they met compliance standards and where they were deficient, and describe "best practices" of compliant firms to help them improve. We will distribute the reports – with the firms' identities kept confidential – to each firm to allow it to compare its compliance performance against that of other firms.

We will know we have succeeded if we find a lower number of significant deficiencies in the compliance practices and systems of IDA member firms in future examinations.

Challenge 4: Continuous Disclosure By Reporting Issuers

Traditionally, regulators have focused their attention on information disclosed in prospectuses when shares are first issued to the public. However, we now recognize that most investors buy and sell their shares in the secondary market – primarily through Canada's stock exchanges – and they rely on continuous disclosure of financial and other material information about a company's performance. We are therefore shifting more of our attention to this area.

Our continuous disclosure reviews have revealed that the quality of continuous disclosure by many companies is unsatisfactory, particularly the discussion of financial results by management (Management Discussion and Analysis or MD&A).

Since we introduced our continuous disclosure review program in July 1998, we have found that some companies who issue shares and report to us are still uncertain about their disclosure obligations.

Our solutions to this problem include:

- educating issuers about continuous disclosure requirements
- enhancing the way we review disclosure materials
- improving compliance with filing deadlines, and
- taking stronger action where needed with issuers that are most seriously deficient.

Corporate Finance, working with Communications and Education, will publish a series of brochures to help BC-based reporting issuers understand their continuous disclosure obligations. These brochures will build on the report published following the continuous disclosure review we completed in April 2000.

Corporate Finance will also work with Communications and Education to provide specific guidance on particularly significant disclosure issues faced by reporting issuers and will participate in at least two industry education forums.

Currently, a large number of reporting issuers do not meet the requirements for filing annual and interim financial statements within the 140 and 60-day deadlines. Under the proposed IDS, these deadlines would be reduced. To avoid an even greater number of delinquent reporting issuers under IDS, we must move to improve compliance now. We plan to do this by communicating deadlines to the industry through regular BCSC information updates and via the media.

Education is not the only tool for improving disclosure practices. We plan to enhance our existing continuous disclosure review program by monitoring trading by insiders of a company in light of events that involve material (significant) changes in the company's business affairs. If it appears insiders are trading during a period when material facts are not disclosed, we will refer the matter to Enforcement for review and investigation. We will also be more active in using sanctions once educational initiatives have been implemented.

Challenge 5: Affinity and Internet Investor Scams

Investors in British Columbia have lost millions of dollars in fraudulent investment schemes where the perpetrators have established and exploited an affinity or relationship with the investor. Despite their losses, investors are often reluctant to come forward and co-operate with our staff investigating these schemes. We want to find ways to more effectively approach these people, obtain information from them, and identify them earlier in the course of the fraudulent scheme.

Enforcement, with the assistance of Communications and Education, will develop methods to reduce the number of fraudulent affinity investment schemes. One approach we are taking is to develop a profile of the "victim" of affinity fraud. We will use this profile to help our investigators identify and deal with victims of affinity fraud and to reach vulnerable audiences through the media and other communications pathways.

Enforcement will also contact local and provincial businesses, police and regulatory groups to build an information network to help uncover and stop improper investment schemes. To support this effort, Enforcement and Communications and Education will develop information and education programs. Enforcement will also work with other staff on cross-divisional teams to identify emerging problems and deal with them quickly.

Con artists are increasingly using the Internet to victimize unwitting investors. Enforcement will actively participate in the efforts of the CSA to conduct Internet reviews and sweeps, as the CSA co-operates with the US Securities and Exchange Commission and other foreign regulators in an international effort to combat securities fraud.

Challenge 6: The Need for Top Quality Staff

Like other employers, we face intense competition in attracting and retaining skilled professionals. Our success depends upon the expertise, experience and motivation of our staff.

To ensure that the BCSC remains an attractive employer, we will continue to benchmark our compensation levels against the market and take more steps to provide a stimulating and supportive work environment.

Initiatives planned by Corporate Planning and Management Services for this year include:

- identifying staff for career planning within the BCSC
- providing targeted training for specific staff
- developing cross-divisional teams for new projects and initiatives, and
- creating career exchanges with industry participants for lawyers, accountants and finance professionals.

Special Thanks to our Advisory Groups

Many people contribute their time and effort to help us serve the public interest. We would like to extend special thanks to the following individuals, for their assistance and counsel.

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We would like to recognize our staff for their contributions of time or money, through the BCSC Social Committee, to the following community projects:

BC's Children's Hospital
The Food Bank
Plan International (Foster Parent Program)
The Vancouver Sun Run
The Provincial Employees Community Services Fund

CONTACT INFORMATION

For information about the BCSC, brochures on important topics or for information on securities regulation in BC – visit or contact us at:

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Search our databases at www.bcsc.bc.ca to:

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For information about public companies and mutual funds, contact our Inquiries Unit at (604) 899-6864 or visit the SEDAR website www.sedar.com

To report suspicious activity involving securities or investments on the Internet, contact us at tips@bcsc.bc.ca

If you have any questions regarding your financial adviser or investment firm or if you would like to make a complaint, phone the Enforcement Division at (604) 899-6600.

LEFT TO RIGHT:
LINDA SHAW, CRYSTAL SHAM,
JULIA TSAO, AND DIANE TY OF
HUGH BOYD SECONDARY
WITH CAREER BUSINESS
EDUCATION CO-ORDINATOR
CAROL LIVINGSTONE.

The BCSC recognizes that educating youth today means prudent investors tomorrow. We funded a Junior Achievement program to provide the basics of saving and investing to hundreds of grade eight students throughout southwestern BC. We also gave one group of Junior Achievement students a "real life" work opportunity by inviting them to design this annual report. We thank them for a job well done.

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